GUIDELINES ON AMORTIZATION AND DEPRECIATION

1. Certain subsidies exist which should be spread over time. In such cases, the investigating authority in the importing country should determine the appropriate time period, and decide how much of the subsidy should be allocated to each time-period.

2. Financial and accounting theory and practice do not provide any single acceptable method of determining the appropriate time-period over which subsidies should be allocated. However, the method selected by the investigating authorities should be based on reasonable and generally accepted financial and accounting practices. The guidelines in paragraphs 3, 4 and 5 below list reasonable alternatives for the amortization and depreciation of subsidies arising from loans and grants. It is understood that the rationale for the method chosen by the authorities should be explained fully to all interested parties and an opportunity be provided to comment on its reasonableness.

Common issues

3. When an investigating authority determines the average useful life of an asset (or group of assets) for the purposes of allocating subsidies over time:
   3.1 The investigating authorities may endeavour to minimize the impact of differences in book-keeping methods on subsidy amounts found; and
   3.2 The investigating authority should select a reasonable period for the firms being investigated.

Loans

4. When allocating the subsidy arising from a loan:
   4.1 The investigating authorities may allocate the subsidy arising from the loan over the life of the loan itself, on the rationale that the loan affects the financial position of the recipient throughout the life of the loan.
   4.1.1 A subsidy arising from a medium- or long-term loan may be allocated over the life of the loan.
   4.1.2 A subsidy arising from a short-term (1-year or less) loan would be allocated to the year in which the subsidy effect accrues to the firm (i.e., the date(s) of repayments).
4.1.3 A medium- to long-term loan with a floating interest rate may be considered to be a series of short-term loans for purposes of the investigating authorities, since the interest rate(s), and therefore the subsidy amount, for later years may not be determinable at the time of the investigation.

4.2 Alternatively, the investigating authority may allocate the subsidy arising from the loan:

4.2.1 In the case that a subsidized loan is used for the acquisition of physical assets such as plant or equipment used in the production of a particular product or group of products: over a period of time reflecting the life of the physical assets used in such production, on the rationale that the subsidy is conferred on the production of those product.

4.2.2 In the case that the subsidized loan is not used for the acquisition of physical assets such as plant or equipment used in the production of a particular product or group of products designated by the authority providing the loan: over a reasonable period reflecting the average commercial life of assets.

Grants

5. When allocating the subsidy arising from a grant:

5.1 The investigating authorities may attempt to determine a reasonable period based on the average life of assets owned by the firm or, if appropriate, a division of the firm. (The Committee recognizes that this latter determination will depend in part upon the terms of the grant and the corporate structure of the recipient of the grant.) The rationale for this approach is that while the benefit of a grant (that is, elimination of financial obligations the recipient company would otherwise incur) has no exact correlation to the life of any assets purchased with the grant, allocating the grant over the average life of renewable physical assets is one generally practical, fair, and consistent method of allocation.

5.2 Alternatively, the investigating authorities may:

5.2.1 In the case that the grant is used for the acquisition of assets needed to produce a particular product or group of products designated by the granting authority, allocate the subsidy over a period of time reflecting the life of the assets so used, on the rationale that the subsidy is conferred on the production of those products.

5.2.2 In the case that the grant is not used for the acquisition of physical assets such as plant or equipment used in the production of a particular product or group of products, allocate such a grant over a reasonable period reflecting the average commercial life of assets.